CITY OF OAKLAND

AGENDA REPORT

TO:	Jestin D. Johnson City Administrator	**FROM:**	Erin Roseman Finance Director
SUBJECT:	Oakland PFRS's Actuary Report As Of July 1, 2024	**DATE:**	February 21, 2025

City Administrator Approval Jestin Johnson (Mar 14, 2025 10:29 PDT) Date: Mar 14, 2025

RECOMMENDATION

Staff Recommends That The City Council Receive An Informational Report On The Oakland Police And Fire Retirement System's ("PFRS", Or "System") Actuary Report As Of July 1, 2024, And Analysis Of Full Funding Status Of The Pension Obligation Ahead Of The Full Funding Date Of 2026 For The Purposes Of The City.

EXECUTIVE SUMMARY

The attached report (***Attachment A***), prepared by the Oakland Police and Fire Retirement System's (PFRS) Actuary Cheiron, provides the recently updated PFRS' Actuarial Valuation as of July 1, 2024.

As of the latest actuarial valuation dated July 1, 2024, the PFRS Funded Ratio (actuarial value of assets divided by present value of future benefits) is 88.3 percent on an Actuarial Value of Assets (AVA) basis. The System's Unfunded Actuarial Liability is approximately $58.4 million. ***Table 1*** below summarizes the July 1, 2024, PFRS Actuarial valuation results.

Table 1
Summary of Plan Results
($ in thousands)

	July 01, 2024
Actuarial Liability	$496,690
Less: Actuarial Value of Assets	(438,333)
Unfunded Actuarial Liability	$58,357
Funded Ratio (AVA) liability	88.3%

Section 2619 (6) of the City Charter requires that the City actuarially fully fund all PFRS liabilities by July 1, 2026. ***Table 2*** below summarizes the PFRS dedicated funding source, and the liabilities required by 2026. The property tax override (TOR) levy provides funds solely for the purpose of funding the PFRS System and its debt service. As of February 28, 2025, the property tax override fund had a balance of approximately $358.0 million, while the City also owes approximately $56.1 million in outstanding PFRS pension bond debt service and $39.1 million in required contributions, which are all due by 2026. Based on the current balances, the City appears to have enough funds in the TOR to meet these obligations.

Table 2
Summary of PFRS' Funding Source and Liabilities Due by 2026
($ in thousands)

Tax Override Fund Balance*	$358,042
Outstanding Pension Debt Service	(56,112)
Outstanding PFRS Contributions	(39,131)
Potential Surplus	$262,799

* Balance is as of February 28, 2025, amount does not include any future interest payments or future funds applied to Tax Override fund prior to 2026

BACKGROUND / LEGISLATIVE HISTORY

The Oakland Police and Fire Retirement System is a closed defined benefit plan established by the City of Oakland's (the "City") Charter. PFRS is governed by a board of seven trustees (the "PFRS Board"). PFRS covers the City's sworn police and fire employees hired prior to July 1, 1976. PFRS was closed to new members on June 30,1976, who chose not to transfer to CalPERS. PFRS provides for the payment of retirement allowances, disability, and death benefits to its members and their beneficiaries. The City of Oakland Charter Article XXVI established the System in 1951 and requires the City of Oakland to provide for its funding.

The PFRS System is governed by a board of seven trustees (the "PFRS Board"): the Mayor or his/her designee, three Mayoral appointees approved by the City Council, an elected active or retired member of the Police Department, an elected active or retired member from the Fire Department, and an elected member position which alternates between the Police Department and Fire Department membership. Trustees receive no compensation.

On June 8, 1976, the voters of the City approved Measure R, a Charter amendment to the Retirement Law, which (as later amended) modified the City Charter to close the System. On August 4, 1981, the Council passed Resolution 59916 C.M.S. authorizing a property tax within the City of Oakland and designating 0.1530 percent for a "1981 Pension Liability Fund"

for the purpose of funding the City's obligations to the System. By resolution passed on March 2, 1982, the Council created the 1981 Pension Liability Fund.

In 1985, the Redevelopment Agency of the City of Oakland, (the "Agency") issued Certificates of Participation, 1985 Series A (the "1985 COPs") to provide financing for a portion of PFRS. The City entered into an Annuity Deposit Agreement with PFRS and purchased an annuity with New York Life (the "Annuity") to be used to pay a portion of the City's obligation to retired City employees, as set forth in Article XXVI of the City Charter.

On June 7, 1988, CMS 65500, more than two-thirds of the qualified voters of the City approved Measure O to provide for an extension of the contribution period for funding Police/Fire retirement liabilities from year 2016 to the year 2026.

In March 1997, the City issued Taxable Pension Obligation Bonds, Series 1997 ("1997 POBs") and, as a result, deposited $417 million into the System to pay the City's contributions through June 2011. As a result of the funding agreement entered at the time the 1997 POBs were issued, City payments to PFRS were suspended from February 25, 1997, to June 30, 2011. The City of Oakland resumed contributing to PFRS effective July 1, 2011, and contributed $45.5 million for the fiscal year (FY) ending June 30, 2012.

In July 2012, the City issued $212.5 million of Taxable Pension Obligation Bonds, Series 2012 ("2012 POBs"). The City subsequently deposited $210 million into the System and entered a funding agreement with the PFRS Board. As a result of the funding agreement and the City's deposit of $210 million in 2012 POBs to the System, no contributions were required until the fiscal year 2017/2018. The City resumed contributions to the System on July 1, 2017.

As of the most recent actuary study dated July 1, 2024, the System's Unfunded Actuarial Liability is approximately $58.4 million, and the System had a Funded Ratio of 88.3 percent on an Actuarial Value of Assets (AVA) basis. The City of Oakland is currently making monthly payments to the Plan for the FY 2024/2025 required contribution of $34.8 million.

ANALYSIS AND POLICY ALTERNATIVES

The attached report provided by the Oakland Police and Fire Retirement System's (PFRS) summarizes the annual funding status of the PFRS' System. This report is being provided in accordance with the City of Oakland Charter, to provide an update to the City Council on the status of the Oakland Police and Fire Retirement System.

The presentation of this report supports the Citywide priority of **responsive, trustworthy government**. This report communicates the PFRS's financial positions and obligations to the public, policymakers, retirees, and stakeholders. At the same time, the annual audits of the PFRS finances provide assurance of the accuracy of the information contained therein.

PFRS' Membership

The City Charter establishes plan membership, contribution, and benefit provisions. The System serves the City's sworn employees hired prior to July 1, 1976, who have not transferred to the California Public Employees' Retirement System ("CalPERS"). As of July 01, 2024, the System's membership was 626, as shown in ***Table 3*** *below*.

Table 3
PFRS Membership
as of July 01, 2024

Membership	POLICE	FIRE	TOTAL
Retiree	263	147	410
Beneficiary	126	90	216
Total Membership	389	237	626

Tax Override Revenues

In accordance with voter-approved measures adopting the City Charter provisions that govern PFRS, the City annually levies an ad valorem tax (the "property tax override" or "TOR") on all property within the City subject to taxation by the City to help fund its pension obligations to PFRS. State law limits the City's tax rate for this purpose at the rate of 0.1575%, the level at which the City has levied the tax since 1983. In August 2024, City Council adopted Resolution No. 90393 C.M.S. reducing the TOR to 0.0705% from the maximum tax rate of 0.1575% due to excess fund balance available to support the PFRS' obligations. The City may levy the property tax override at least through 2026. In 1988, voters passed ballot Measure O, which revised the City Charter to extend the City's funding deadline for PFRS from 2016 to 2026. Per Article XXVI of the current Oakland Charter, the City is required to actuarially fund all liabilities for future benefits for all PFRS members by July 1, 2026. However, whether the City may levy the property tax override beyond 2026 without a ballot measure and 2/3rds voter approval is an open question that the City Council, in consultation with the City Attorney, must determine, regardless of the source of funds, whether from the General Purpose Fund or the property tax override. The property tax override (TOR) levy provides funds solely for the purpose of funding the PFRS liability. The TOR is levied annually and is included in the annual tax statements from the County. A portion of the revenues are used to pay the debt service on the 2012 Pension Obligation Bonds debt service. A portion of the revenues are used to pay the City's contribution of the monthly retirement payments. The remainder of the TOR revenues remain in trust in the City Treasury.

As of February 28, 2025, the property tax override fund had a balance of approximately $358.0 million, and the City of Oakland outstanding pension bond debt service was approximately $56.1 as shown in ***Table 4*** below.

Table 4
City of Oakland Outstanding
Pension Bond Debt Service

Payment Date	City of Oakland Pension Obligation Bonds
6/15/2025	$1,253,285
12/15/2025	54,858,285
TOTAL	$56,111,570

Projected City of Oakland Contributions

Article XXVI Section 2619 (6) required that the City fully fund the PFRS Plan by 2026. ***Table 5*** summarizes the projected employer contributions for the remaining three years. The required contribution for fiscal year 2024/2025 is $34.8 million. The City's required contributions are at rates established by consulting actuaries based upon plan valuations.

Table 5
Projected Employer Contributions
Police and Fire Retirement System
(in millions)

Fiscal Year Ending	Employer Contribution
2025	$34.8*
2026	37.6

*As of February 28, 2025, the City has paid $23.2m of the required annual contribution of $34.8m.

FISCAL IMPACT

This is an informational report. There are no budget implications associated with this report.

PUBLIC OUTREACH / INTEREST

This item did not require public outreach other than the required posting on the City's website.

COORDINATION

This report was prepared in coordination with the PFRS' Actuary (Cheiron).

SUSTAINABLE OPPORTUNITIES

Economic: Whenever possible, the PFRS Board seeks to benefit the local Oakland-based economy. In 2006, the PFRS Board, along with staff, created the PFRS Local Broker provision. This provision mandates that the PFRS Investment Managers consider using Oakland-based brokers for all trades conducted on behalf of the fund based on best execution. This program aims to regenerate some of the commissions generated by the System into the Oakland economy.

Environmental*:* The PFRS Board supports a sustainable environment. On June 29, 2016, the PFRS Board passed Resolution No. 6927 prohibiting PFRS investment managers from

investing PFRS funds in any publicly traded company which derives at least 50 percent of its revenue from the mining and extracting of thermal coal.

***Race & Equity**:* There are no race and equity opportunities associated with this report.

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That The City Council Receive An Informational Report On The Oakland Police And Fire Retirement System's ("PFRS", Or "System") Actuary Report As Of July 1, 2024, and Analysis of Full Funding status of the Pension Obligation ahead of the full funding date of 2026 for the purposes of the City.

For questions regarding this report, please contact Erin Roseman, Director of Finance, at (510) 238-2026.

Respectfully submitted,

Erin Roseman (Mar 13, 2025 12:47 PDT)

ERIN ROSEMAN
Director of Finance, Finance Department

Reviewed by:
David Jones, Treasury Administrator

Prepared by:
Téir Jenkins, Investment & Operations Manager
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Attachments (1):

A: Oakland Police and Fire System Actuarial Valuation Report as of July 1, 2024